

UNNUMBERED LETTERS ISSUED FOR THE DECEMBER OF 2010

| Dated | Subject | Distribution |
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| 12/6/10 | Request for Fiscal Year 2011 Rental Assistance Data for Renewal Needs for Multi-Family Housing | S/D |
| | | |
| 12/6/10 | Single Family Housing Section 502 Direct Loan Quality Assurance Report and Quality Control Activities | S/D |
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December 6, 2010

TO: State Directors
Rural Development

ATTN: Multi-Family Housing Program Directors/Coordinators and
Automated Multi-Family Accounting System Coordinators

FROM: Tammye Treviño (*Signed by Tammye Trevino*)
Administrator
Housing and Community Facilities Programs

SUBJECT: Request for Fiscal Year 2011 Rental Assistance Data for Renewal Needs for
Multi-Family Housing

The purpose of this memorandum is to obtain verified data concerning the need for renewal Rental Assistance (RA) during Fiscal Year (FY) 2011. This data will be used to allocate renewal RA and must be accurate.

Each State Automated Multi-Family Accounting System (AMAS) Coordinator should review the FY 2011 RA List located at <https://mfhdemoteam.sc.egov.usda.gov/RA>. This report is from the Multi-Family Information System (MFIS) report PROJS2200 "RA Agreement". This report needs to be reviewed by both the State and Servicing Offices to ensure that all projects that have expiring RA obligations that need to be renewed during the time period of January 1, 2011, through December 31, 2011 are listed. Any changes to the report should be entered into the RA web site. Instructions on updating information on the RA website are also located under the "Documents" heading on the web site in the left navigation bar. The due date for completion of the review is ***December 17, 2010***.

A. Review Process for the FY 2011 – RA List:

To help identify renewal RA needs, the following steps should be followed:

1. The AMAS Coordinator should update the RA web site and verify project-by-project RA renewal needs for only those projects with RA agreements that will run out of funds during the time period of January 1, 2011, through December 31, 2011.

EXPIRATION DATE:
December 31, 2011

FILING INSTRUCTIONS:
Housing Programs

2. Enter in any additional projects that are not listed on the report, but need to be renewed during the January 1, 2011, through December 31, 2011, time period. Projects currently scheduled to deplete between January 1, 2012, and March 31, 2012, need to be evaluated to determine if RA is being used at a rate that would cause the obligation to need renewal during FY 2011.
3. The servicing office should identify and update the quarter in which the project's RA will be depleted. When examining RA agreement usage to determine which quarter the RA will deplete, utilize the average of the last three months' RA usage. The last three months' average will provide the most accurate indicator of usage by taking into account recent rent increases and usage by current tenants.

NOTE: Renewal RA should not be obligated earlier than 90 days prior to the projected depletion of funds. Example: An RA obligation that will deplete during the January 1, to March 31, quarter should not be obligated prior to October of the preceding year.

B. Review Process for the RC-823 D & E Report:

In order for the National Office to determine that RA is being properly utilized, it will be necessary for you to respond regarding the status of each of the obligations shown outstanding on the RC-823 D & E "Unliquidated Rental Assistance Obligations Estimated Fund Depletion Report – RA Agreement Inactive for three Months or More" report. Please review and make notations on the automated report as to which of the following conditions exist:

1. Now Being Used
2. Renewal - To Be Used
3. New Construction - Not Operational
4. Acceleration / Foreclosure In Process
5. Inventory Property
6. Rehabilitation In Progress
7. Property Prepaid (for Properties that prepaid in FY 06 or 07)
8. Other (Provide Explanation)

Each State AMAS Coordinator should send an e-mail notifying your Portfolio Management Analyst (PMA) once the review and verification process for the State has been completed.

C. Expiring RA Agreement

For prior year RA obligations that will have their agreements expiring in FY 2011, the existing Form RD 3560-27, "RA Agreement," will need to be revised to extend the agreement to "until funds are expended." We anticipate a majority of the RA obligations will have depleted prior to September 30, 2011, and the renewal process will be initiated.

If you have any questions, please contact your PMA or Janet Stouder at (202) 720-9728.

December 6, 2010

TO: State Directors
Rural Development

ATTN: Program Directors
Single Family Housing

FROM: Chad Parker (*Signed by Chad Parker*)
Acting Deputy Administrator
Single Family Housing

SUBJECT: Single Family Housing Section 502 Direct Loan
Quality Assurance Report and Quality Control Activities

The purpose of this unnumbered letter is to provide guidance regarding the Quality Assurance Report (QAR) and loan quality control activities. Rural Development (hereinafter referred to as Agency) believes that reliable and effective quality controls are essential for the success of the Section 502 Direct loan program. In recent years, the Agency has enhanced loan underwriting reviews and strengthened quality control measures to mitigate risk and improve loan performance. As we continue to align quality assurance efforts with Agency goals, we ask that you review and utilize existing resources to monitor the quality of Section 502 Direct loans.

Quality Assurance Report

Loan quality begins before an application is taken and continues throughout processing, underwriting, closing, and post-closing activities. The New Loan Setup Section at the Centralized Service Center (CSC) is responsible for performing post-closing quality assurance reviews. The review results are compiled in the Quality Assurance Report (QAR) available in Hyperion. The primary objective of these reviews is to identify defects, mistakes, and errors made during the loan making process and to validate the existence and accuracy of the documentation required by program regulations and applicable federal and state laws.

Expiration Date:
November 30, 2011

Filing Instructions:
Housing Programs

State Office personnel must access the QAR reports on a monthly basis to monitor the integrity of the loan origination/closing process in their respective states and to assure that defects discovered during the quality assurance review are remediated. Correcting deficiencies noted in the QAR should be done as expeditiously as possible, not to exceed 30 calendar days, as it may potentially affect the Agency or the borrower.

QAR reports are available on the 11th day of each month. Instructions on how to access the QAR in Hyperion along with detailed information about the reports have been posted to the SharePoint site at the following link:

Single Family Housing > Single Family Housing Information > Direct Program Information > Quality Assurance Report

Agency staff with an eAuthentication Login can access the QAR reports.

Quality Control Activities

The information in the QAR combined with the results of additional quality control activities, such as the first year delinquency underwriting reviews, is intended to be used to improve the overall performance of Section 502 Direct loans. For the most part, the QAR captures objective mistakes related to documentation and it is used to reduce operational risk by immediately resolving the identified problems. In contrast, loan underwriting reviews are primarily subjective assessments of the credit analysis for making an approval or exception determination. The results of these two quality control activities may be combined to achieve a holistic risk analysis of program operations and assist management to:

- Identify the types of common errors or lack of documentation that may affect loan performance and/or put the Agency at risk.
- Assess whether loans are properly underwritten based on program regulations and prudent underwriting practices.
- Identify weaknesses in the loan origination and closing process.
- Monitor the overall quality of the loan origination operations at the field office level.
- Identify common mistakes and/or trends by field office. For example, the discovery of several common errors during the quality assurance review may signal the need for reinforced training.
- Assess the accuracy of the data integrity. This is important to make an accurate credit determination and to generate reliable reports for management decisions.

Questions regarding access to and/or content of the QAR may be directed to Jeanette Jordan, Escrow and Front-End Management Branch (EFMB) New Loan Setup Section, at (314)457-5891 or jeanette.jordan@stl.usda.gov. You can also contact Caroline Crecelius, EFMB New Loan Setup Section at (314)457-5887 or caroline.crecelius@stl.usda.gov. In order to better assist you, please have the account number when inquiring about specific accounts.

Questions about this memo may be directed to Migdaliz Bernier of the Single Family Housing Direct Loan Division at (202) 690-3833 or migdaliz.bernier@wdc.usda.gov.